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SUBJECT: ROMANIA STRUGGLES TO OVERCOME EFFECTS OF FLOODS,
FORECAST CALLS FOR MORE RAIN - AND TURMOIL

REF: Bucharest 1563

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1. (SBU) SUMMARY: Recent flooding in Romania's eastern regions have caused extensive damage to roads, suspended electricity and gas networks, submerged prime agricultural land and affected more than 14,000 households. This comes on the heels of prior spring floods in the southwestern areas that, taken together, have hit a large swath of Romania. In a country with poor infrastructure and subsistence agriculture, the damage will certainly hit the economy, as the GOR and individuals struggle to rebuild. The full effects of the floods on the budget and macroeconomic growth will only reveal themselves in the coming months, but will probably cause the Romanian budget to exceed the IMF-imposed budget deficit ceiling. Many Romanians have criticized the government for slow and inadequate response to the flooding and for focusing on partisan political concerns. END SUMMARY.

Flooding Causes Widespread Damage

2. (U) Damage estimates from the previous, less widespread, flooding in May surpassed one billion Euros. The most recent flooding has affected more localities (500 in 31 counties throughout Romania), according to provisional GOR reports released by the Ministry of Administration and Interior. The floods have luckily taken only a minor toll on life, resulting in at least seven deaths and several cases of missing people. Thousands of people, however, have been left homeless and more than 10,000 homes were evacuated and 250 were destroyed. Emergency workers and volunteers rescued stranded residents from rooftops as water rose as high as nine feet in some villages.

3. (U) The road infrastructure was heavily affected, with 17 national roads, 327 county roads and 54 communal roads submerged, according to the Ministry of Transportation, Construction and Tourism. Hundreds of bridges and footbridges have collapsed. The three most affected counties include Bacau, Arges and Vrancea, areas known for farming, livestock and wood manufacturing.

Economic Impact Still Undetermined

4. (U) The flood's affect on the economy is difficult to estimate at this time, as flash floods continue and new waves of heavy rain are expected for next week. However, according to preliminary estimates from the Ministry of Agriculture, approximately 450,000 hectares of agricultural land have been affected by floods (nearly five percent of total agricultural land) with total damages reaching 130 to 140 million Euros, approximately \$160 million.

5. (U) According to some estimates, crop losses will cause wheat prices to soar by 22 percent, as 150,000 hectares of land cultivated with wheat are affected. Fifteen percent of land cultivated with sunflower and five percent of land cultivated with corn are also inundated, although the GOR has produced no damage estimate in this sector at this time. Livestock losses, however, are estimated at almost half a million USD.

6. (U) Nor will the losses be confined to the agricultural sector. Transporters are still assessing the damage caused by delays in freight shipment. Many factories in the area were also inundated, with many uninsured. The transport of petroleum from southern Moldova to refineries was also affected.

GOR Worried About Impact

7. (U) After surveying the heavy flooding in Bacau county, Prime Minister Calin Popescu Tariceanu on July 14 stated

that "the budget deficit no longer matters." Tariceanu further stated that after six months of bargaining between the GOR and the IMF, the macro-economic targets negotiated for this year - a budget deficit of 0.7% of GDP, a 7.5% inflation rate, and 5.5% economic growth - no longer hold significance due to the natural disaster that has devastated 31 counties throughout the country.

18. (U) President Traian Basescu also on July 14 requested the support of the European Commission for channeling twenty million Euros from PHARE EU funds for emergency reconstruction of roads and bridges. The World Bank will reallocate \$33 million from existing projects to complement state budget resources for the immediate reconstruction of infrastructure and homes damaged by the floods. The GOR yesterday announced a financial assistance package including \$344,000,000 for reconstruction, \$507,900 for social assistance, and approximately \$1,000,000 for thirteen tons of food to be sent to the affected areas.

.While the IMF Stands Firm

19. (SBU) Econoff spoke with an economic assistant in the local IMF staff, who stated that the IMF will not easily abandon its deficit target. Graham Justice, resident IMF representative, is expected to meet shortly with the GOR State Secretary responsible for the budget to review government plans on cost control associated with the flooding. The IMF staffer emphasized that because flooding is expected to continue, it is too early to assess the overall economic impact. She expects the GOR will request a softer budget deficit target, but strongly prefers that they look for cost savings on either the expenditure or revenue sides. Since revenues have been much stronger than forecast, she believes the GOR may have maneuvering room.

EU Still Assessing the Damage

10. (SBU) Econoff spoke with an economic analyst from the European Commission's Bucharest office who was noncommittal about the flood's economic impact due to a lack of data. He stated that any damage that requires repair work could be viewed as positive for the economy, while situations that boost operating costs, such as higher transportation fees, will have a negative affect on GDP. The analyst was dismissive about the overall affect on total agricultural output, and felt that in general the floods would likely not be a "big deal" for the macro economy. He doubted the flooding would impact EU accession and felt that if anything, the situation may attract more sympathy from EU member states.

GOR Response Perceived to be Slow

11. (SBU) Many Romanians have expressed anger at what they perceive as the GOR's slow and inadequate reaction to the flooding and the humanitarian crises that have followed in its wake. Both media analysts and ordinary citizens have criticized political leaders for focusing on PM Tariceanu's expected resignation and the possibility of snap parliamentary elections (see Reftel) rather than addressing what most Romanians view as a major economic and humanitarian catastrophe. Romania's best selling daily newspaper, "Libertatea," observed July 15 that flooding has turned Romania into an "ocean" in which "more than half of the country's territory is covered with water," provoking an "exodus of Romanians from their own country." Against this backdrop, former President Iliescu called on President Basescu earlier this week to convoke the Supreme Council of National Defense (CSAT) in order to declare a state of emergency, condemning the current government's insistence on playing political games rather than focus on a natural disaster of national proportions. (Ref) PM Tariceanu publicly rejoined that "the necessary measures have already been taken. We cannot make water no longer flow, but the authorities had and will have a prompt reaction, so I believe there is no need to declare an emergency." Media commentators observed that declaration of a state of emergency could imply calling in the armed forces to provide humanitarian assistance.

U.S. Mission Assistance

12. (U) Even before this latest outbreak of flooding, labeled in press reports as one of the worst of the past century, Embassy's former Charge D'Affaires had declared the flooding a disaster on July 5, 2005, after receiving a request for assistance from the GOR, which enabled the USAID Office of Foreign Disaster Assistance to provide \$50,000 for immediate humanitarian relief. This assistance will target one of the hardest hit areas, and will provide emergency commodities including water sterilization tablets, household assistance kits (blankets, mattresses, clothing, flashlights, dishes, rubber boots and gloves, basic food items including oil, sugar, canned food, fruits and vegetables), and individual hygiene kits (soap, detergent,

toothbrush, toothpaste, sanitary alcohol).

AmCham in Romania Announces Relief Efforts

13. (U) The American Chamber of Commerce in Romania (AmCham) has started a campaign among its members to fund relief efforts. The AmCham Board also authorized 5,000 Euros as an immediate donation and is urging all of its members that have already donated money or supplies to inform AmCham so that it can keep track of the efforts.

Comment

14. (SBU) The floods may have made already tight IMF budget targets virtually impossible to meet, as Romania prepares for lower productivity and increased costs relating to damages. Continuing flooding, which is predicted at least into next week, will likely further drive the budget off-target and lead Romania into an increasingly challenging budget situation unless IMF targets are relaxed. With Prime Minister Tariceanu's admission that spending on flood assistance will occur regardless of the current budget plans, he is admitting that Romania is unlikely to meet its fiscal targets.

15. (SBU) It is still too early to assess the overall impact of the floods on the Romanian economy. However, the presence in the hard-hit rural areas of many subsistence farmers suggests that the real humanitarian and financial impact will be more serious than EU and IMF observers are willing to admit at this time.

16. (SBU) This latest episode of flooding, judged by some to be one of the worst of the past century, also seems to have complicated the current convoluted political picture still further, and threatens to erode the current government's popularity if the GOR is not seen to address the latest economic and humanitarian challenges adequately. One of President Basescu's advisors told Charge on July 14 that the GOR is likely to reach out to us again to see what resources we can make available to alleviate the suffering. End comment.

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